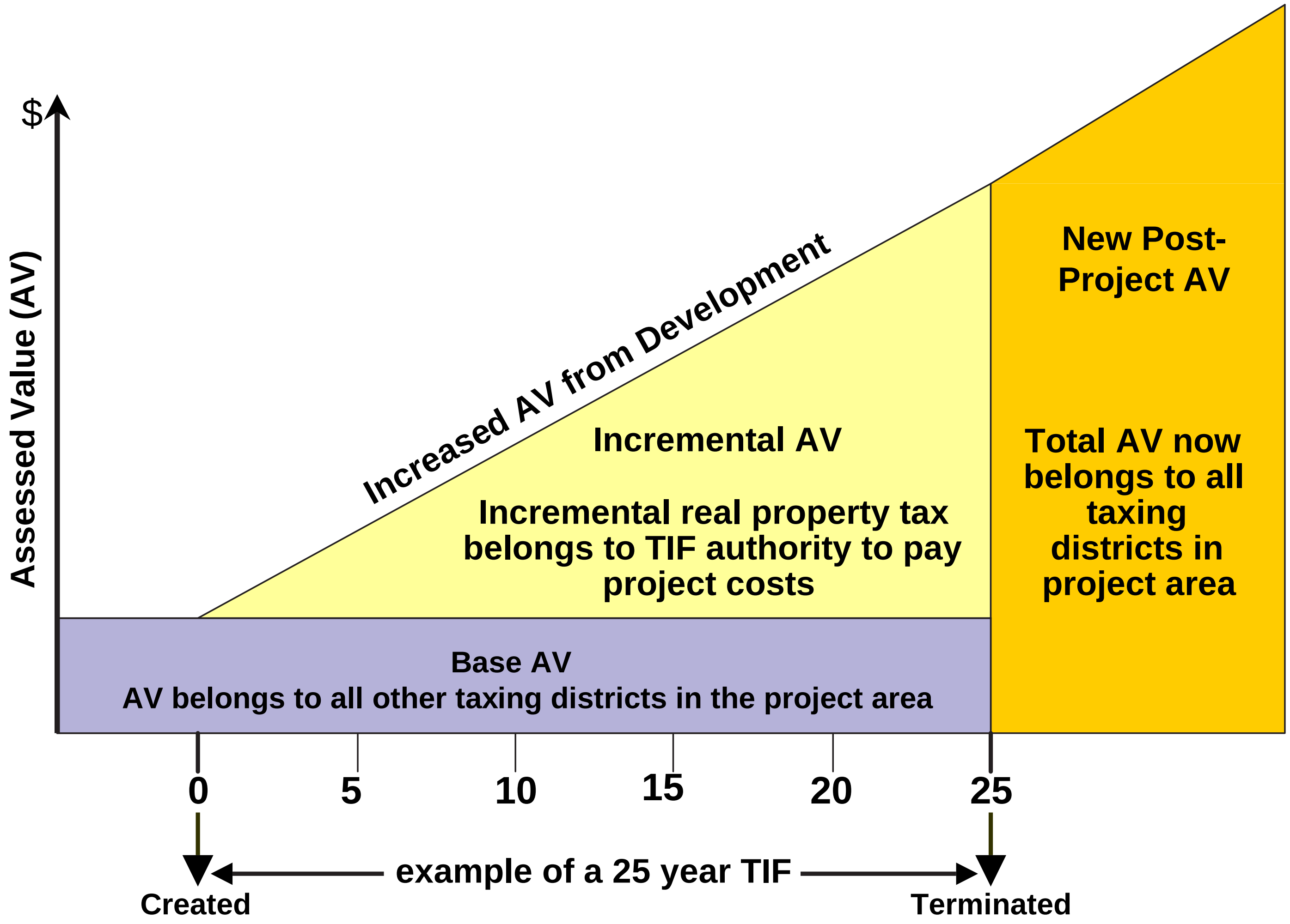
TIF Study Commission

April 5, 2012

TIF Concepts Recap

Jeff Spalding, *Controller*
Michael Peoni, *DMD*

TIF Assessed Value (AV) Over Project Life



Dept. of Metropolitan Development
Indianapolis
Mayor Gregory A. Ballard

The TIF Process in Marion County

INITIATION → FORMULATION → ADOPTION → IMPLEMENTATION → TERMINATION

INITIATION

DETERMINE PROJECT FEASIBILITY
- Need
- Relationship to/ impact on the Marion County Comprehensive Plan
- Economic benefits
- Financial feasibility
- Area eligibility
- Public-private partnerships
- “But For” Test

FORMULATION

CREATE REDEVELOPMENT OR ECONOMIC DEVELOPMENT AREA PLAN
- Determine geographic boundaries
- For redevelopment area - finding of deteriorated improvements, age, obsolescence, etc.
- For economic development area - finding of significant economic benefit
- Estimate project timeline and project costs
- Identify base assessed value, revenue increment, and debt financing policies
- Include special features
- Establish project objectives and expiration date

ADOPTION

CONDUCT PUBLIC DISCLOSURE
- Public forums
- Involve affected areas

TIF AREA APPROVAL
- MDC Declaratory Resolution
- Council Committee Hearing
- Council Resolution
- Notice of MDC Public Hearing and delivery of Tax Impact Statement
- MDC Public Hearing and Confirmatory Resolution
- Filings with Auditor and DLGF regarding allocation area creation

PROJECT/ FINANCING APPROVAL
- Draft public-private sector agreements
- MDC Resolution pledging TIF
- If bonding to be issued, approvals by MDC and Council

IMPLEMENTATION

MANAGE PROJECTS/ CONSTRUCTION
- Obtain land
- Prepare site
- Construction
- Post-construction management

MANAGE PROJECT FINANCES
- Issue debt instruments
- Authorize receipt and distribution of tax increments
- Generate tax increment to meet debt service payments (also prior to each July 15, identify amount of TIF needed in following year’s budget)

TERMINATION

DISSOLVE TAX INCREMENT DISTRICT
- Total assessed value - base and increment - now belongs to underlying taxing units

Marion County TIF Districts – Overview:
History of Tax Increment Financing

Drew Klacik, *IUPUI*

History of TIF Nationally

- CA in 1952
- 5 states prior to 1970
- 36 states and DC between 70 and 89
  - Decline in UDAGs . IRB etc
- 8 since 1990
- Only AZ doesn't enable

History of TIF in Indiana

- Enabling legislation passed in 1975
- First TIF districts mid 80s
  - South Bend, Fort Wayne and Indianapolis
- In 1989 – TIF in 12 counties
- In 2002 58 counties

History of TIF in Indiana

- Initially all were RDA
- 1989 EDA enabling legislation passed
  - EDA increasingly more common
    - Between 1993 and 1995 EDA designation outnumbered RDA 3 to 1
    - By 2002 54 RDA and 47 EDA
  - Not uncommon– 45% of WI TIFs are EDA
- Key point
  - EDA undermines TIF’s usefulness as a redevelopment tool

History of TIF in Indiana

- Of those that responded to 2002 survey
  - Largest in Anderson 4,770 acres
  - Smallest in Anderson 5.5 acres
- Over 100 TIFs in Indiana by 2002
  - 789 in WI
  - 2,400 in Iowa
  - 402 in Cook County, IL
- 7.1% of Iowa's urban tax base is in increment
- In 2002 1.9% of AV in Indiana counties with TIF was incremental

History of TIF in Indiana

- Real property most common
  - In 1995 67 real and 18 used both real and personal
  - Of 17 districts created between 1995 and 2002
    - 13 real only and 4 used both

Other Key Events in Indiana

- Change in assessment method
- Schools shifted to state
- Property tax caps

History of TIF Literature

- Originated in CA as method to generate matching funds for Federal grants
  - Evolved into source of revenue to replace Federal funds
- Mostly used for infrastructure
  - Type of project varies
    - Industrial, commercial, residential, retail, and amenities
- Most states capture all revenue
  - Some exclude schools

Literature: Strengths of TIF

- Politically feasible
- Typically doesn’t count against debt limits
- Link between infrastructure and economic growth
- Market based review – if lenders don’t believe in project they won’t make the loan

Literature: Weaknesses of TIF

- Risk
  - Disaster
  - Failure to achieve full build out / AV projections
  - Changes in tax environment
  - Market based AV
- Capitalized interest
- Taxpayer equity

Literature: Innovations

- Requiring excess increment to be passed back to taxing units
- Limit acreage
- Require developer guarantees
- TIF term limits (WI 20 years)
- TIF AV limits (WI no more than 5% of municipalities gross AV)

Literature: Issues

- Would the private investment occur without the incentive (infrastructure)
- Balance need to support redevelopment with infrastructure investment options
- How to determine size / AV limits
- Equity issues:
  - who pays and who benefits
  - Existing companies / new companies
- Tax abatement and other economic development tools

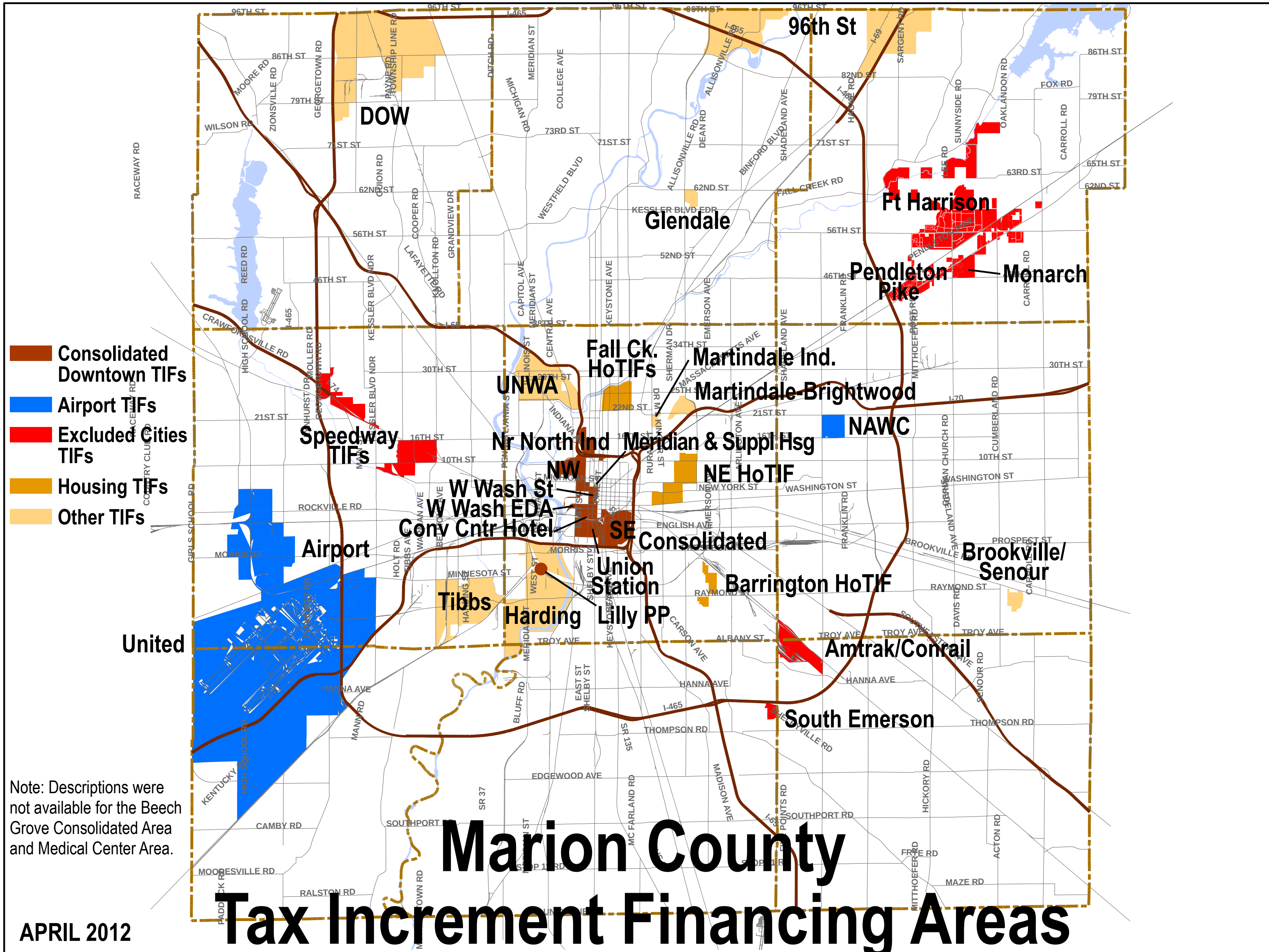
Literature: Issues

- Can reporting requirements / monitoring be improved
- Are there particular uses that are more effective/appropriate than others?
- What other options are available

Marion County TIF Districts – Overview: TIF District Maps and Types

Deron Kintner, *Indianapolis Bond Bank*

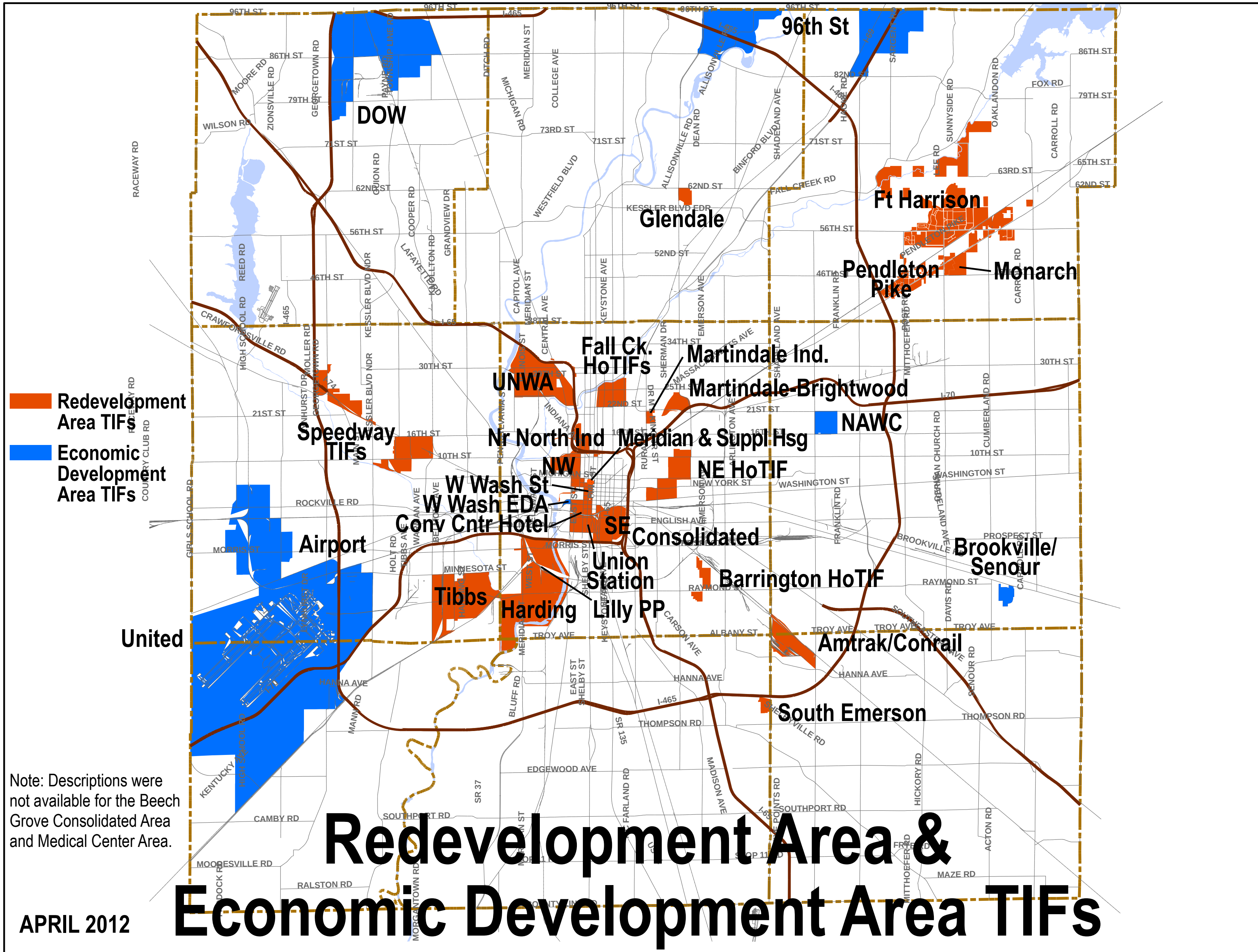
Marion County Tax Increment Financing Areas



Note: Descriptions were not available for the Beech Grove Consolidated Area and Medical Center Area.

APRIL 2012

Redevelopment Area & Economic Development Area TIFs



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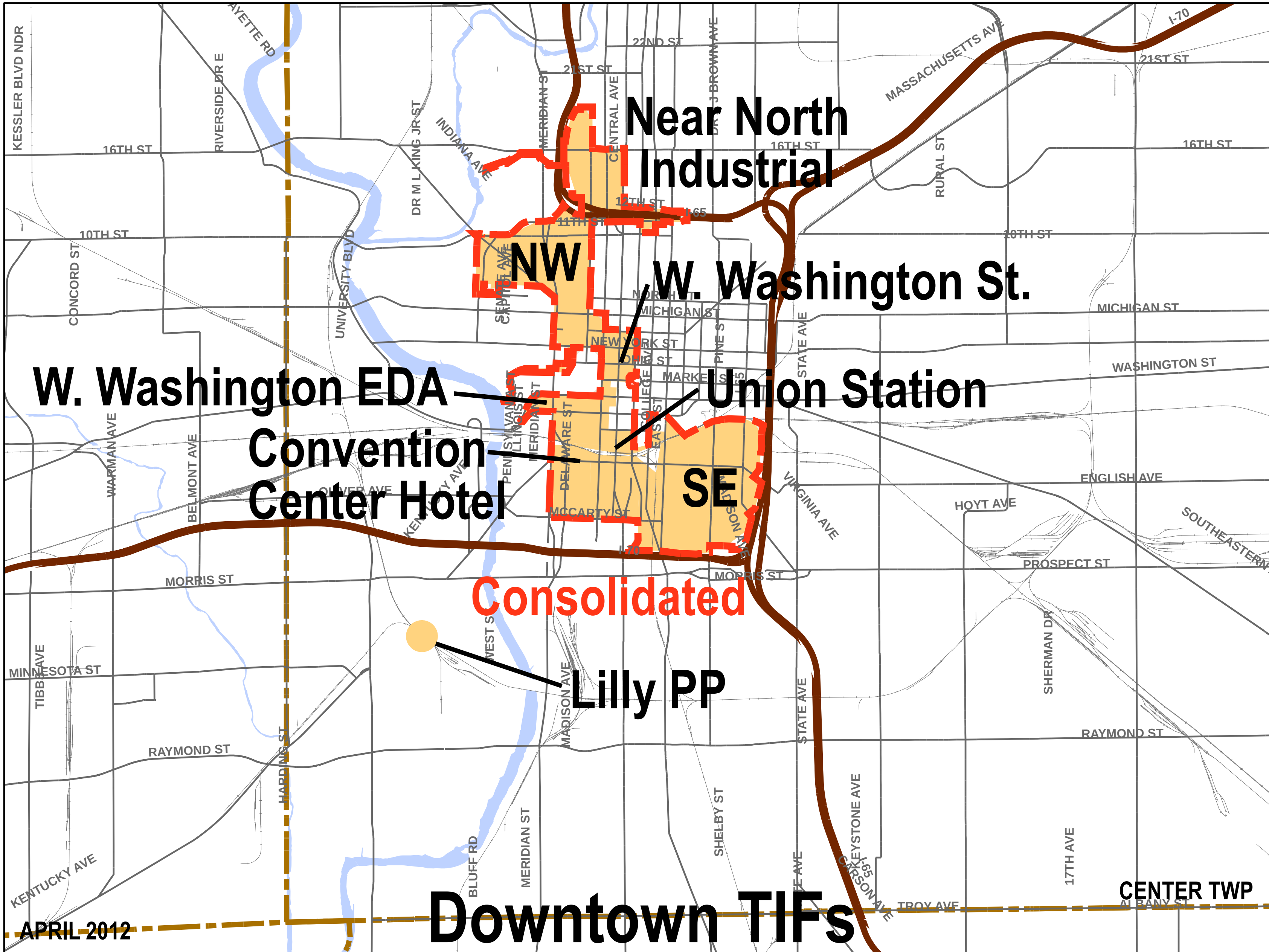
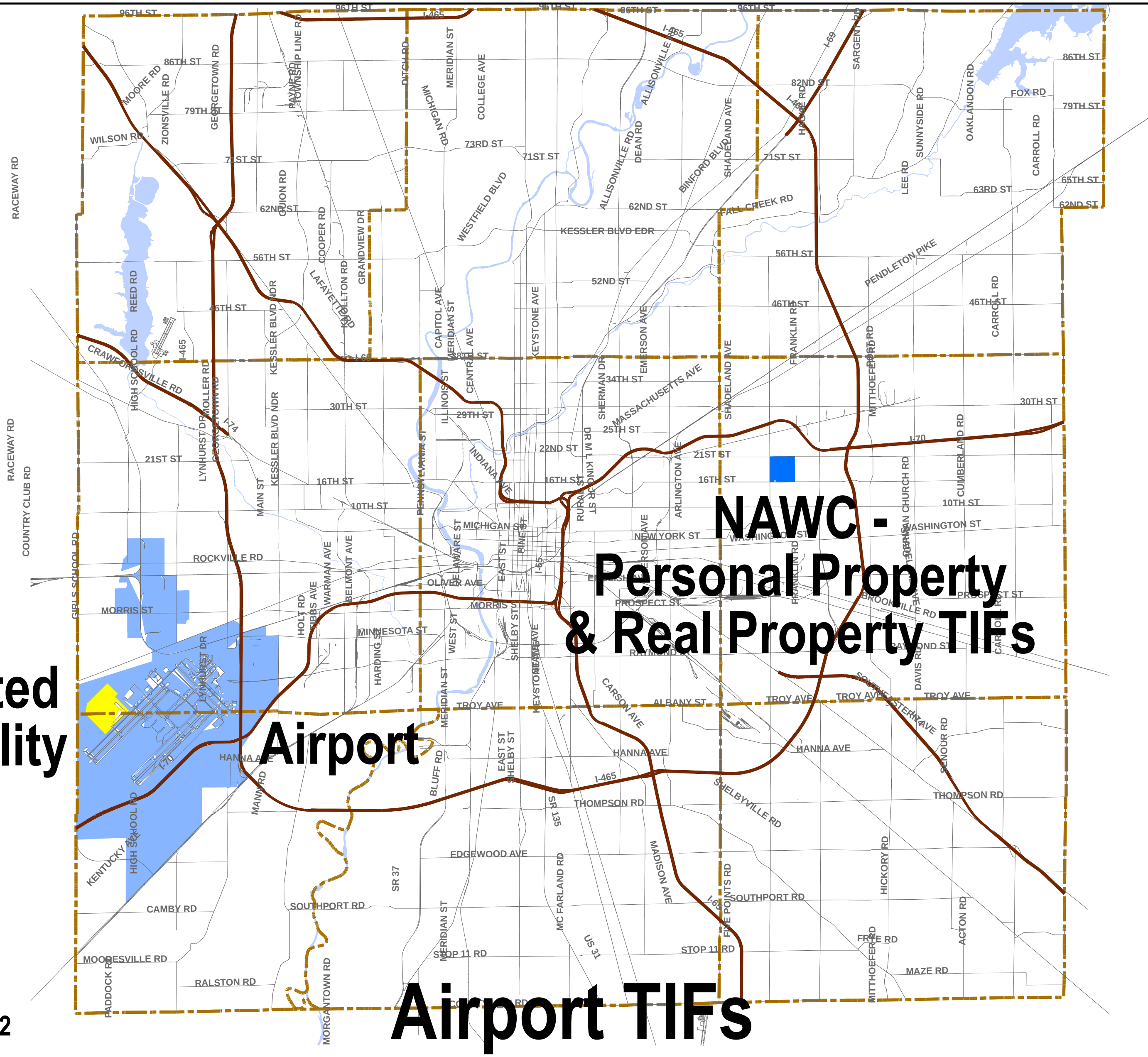

Near North
Industrial
NW
W. Washington St.
W. Washington EDA
Union Station
Convention
Center Hotel
SE
Consolidated
Lilly PP
Downtown TIFs
APRIL 2012
CENTER TWP
16TH ST
10TH ST
MICHIGAN ST
WASHINGTON ST
ENGLISH AVE
PROSPECT ST
MORRIS ST
RAYMOND ST
MERIDIAN ST
STATE AVE
SHELBY ST
KEYSTONE AVE
I-70
I-65

Airport TIFs



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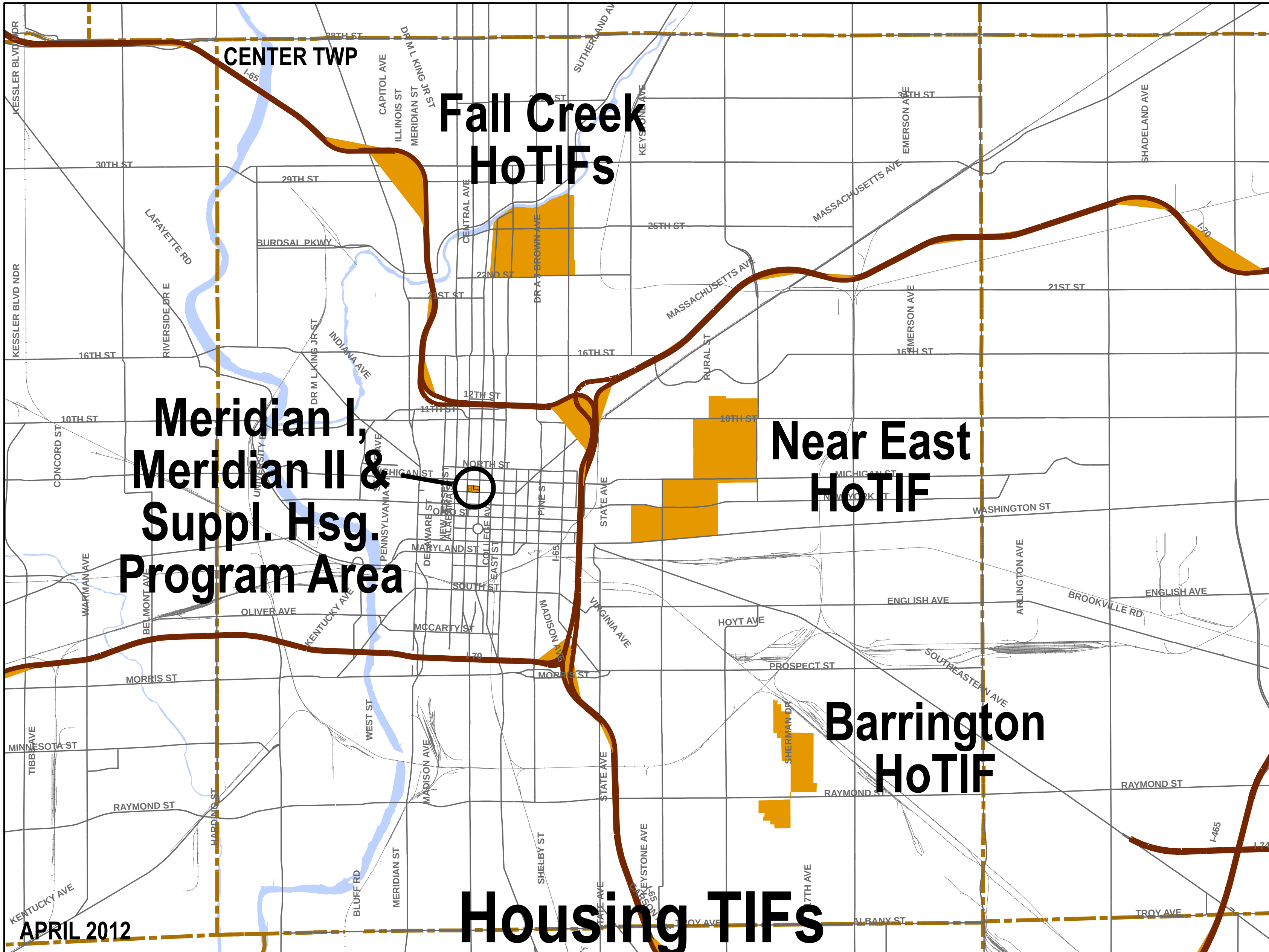
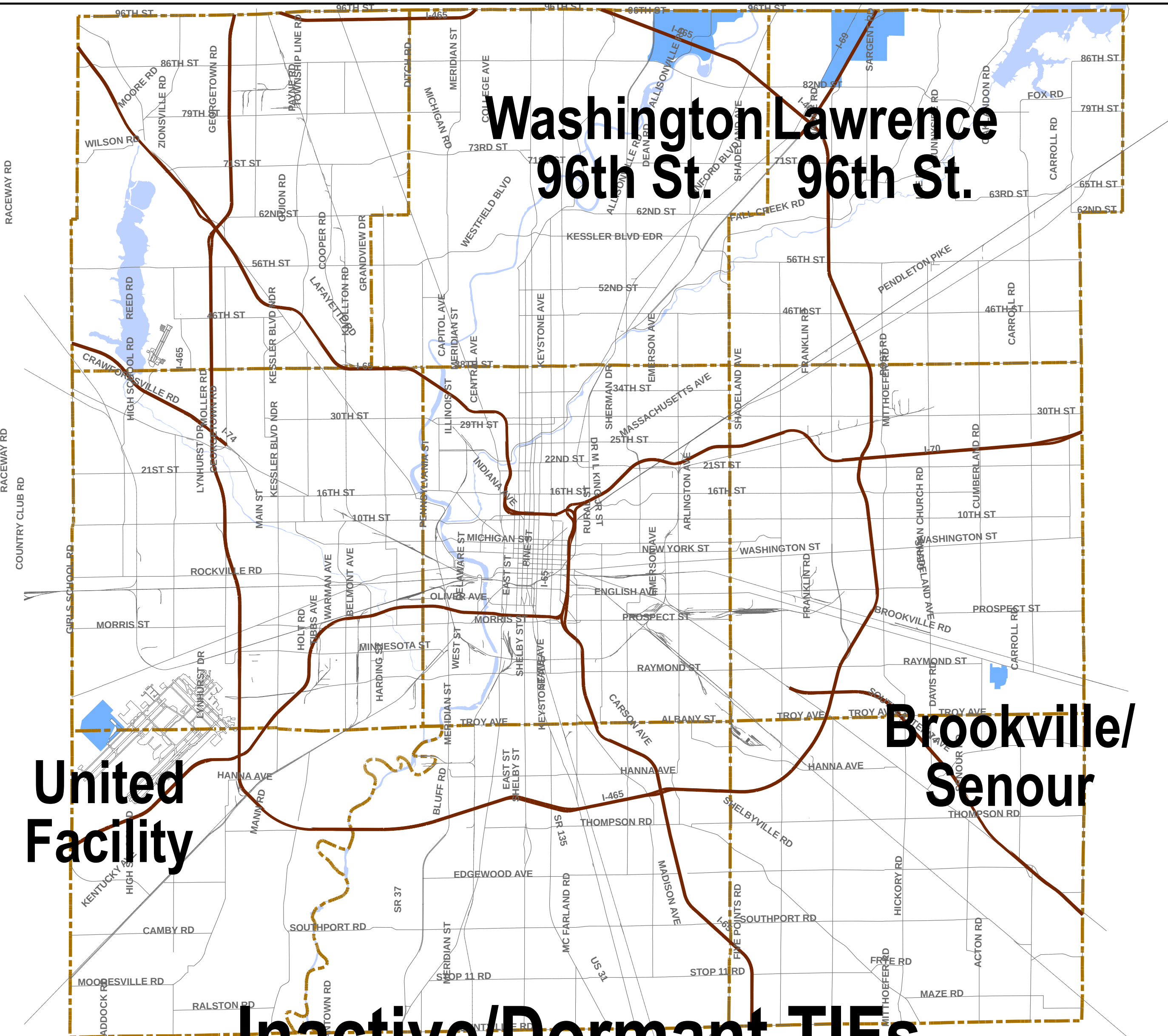
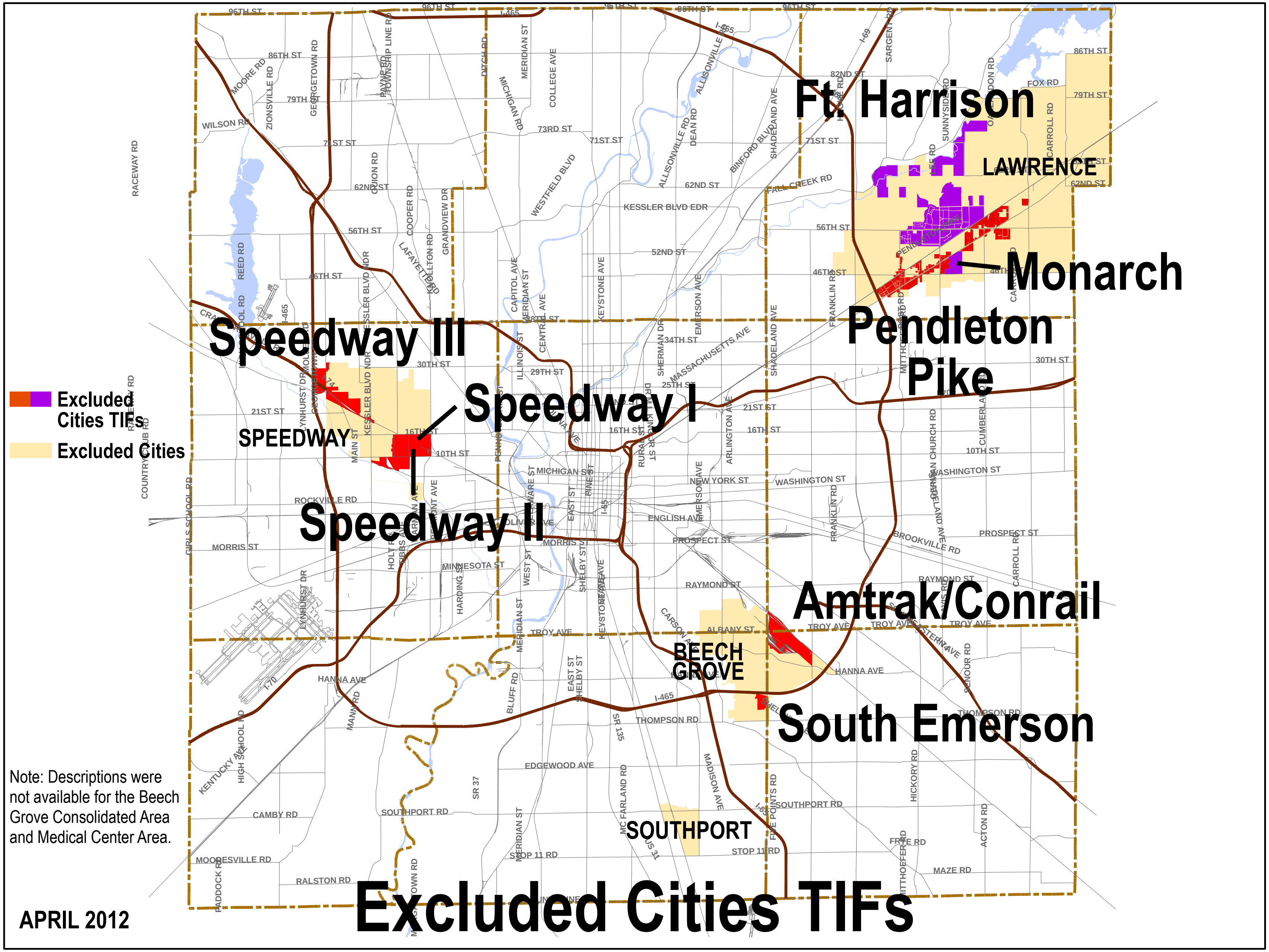


Housing TIFs
Fall Creek HoTIFs
Near East HoTIF
Barrington HoTIF
Meridian I, Meridian II & Suppl. Hsg. Program Area
CENTER TWP
APRIL 2012
30TH ST
29TH ST
25TH ST
22ND ST
21ST ST
16TH ST
12TH ST
11TH ST
10TH ST
NORTH ST
MICHIGAN ST
NEW YORK ST
OHIO ST
MARYLAND ST
SOUTH ST
MCCARTY ST
WASHINGTON ST
ENGLISH AVE
HOYT AVE
PROSPECT ST
MORRIS ST
RAYMOND ST
MINNESOTA ST
OLIVER AVE
TROY AVE
ALBANY ST
BURDSAL PKWY
MASSACHUSETTS AVE
SOUTHEASTERN AVE
BROOKVILLE RD
VIRGINIA AVE
MADISON AVE
KENTUCKY AVE
INDIANA AVE
LAFAYETTE RD
SUTHERLAND AVE
CAPITOL AVE
ILLINOIS ST
MERIDIAN ST
PENNSYLVANIA ST
DELAWARE ST
COLLEGE AVE
EAST ST
PINE ST
STATE AVE
RURAL ST
EMERSON AVE
ARLINGTON AVE
SHADELAND AVE
KEYSTONE AVE
SHERMAN DR
SHELBY ST
WEST ST
BLUFF RD
HARDING ST
BELMONT AVE
WARMAN AVE
CONCORD ST
KESSLER BLVD N DR
RIVERSIDE DR E
DR M L KING JR ST
CENTRAL AVE
DR A J BROWN AVE
TIBBS AVE
I-65
I-70
I-465
I-74

Inactive/Dormant TIFs



APRIL 2012

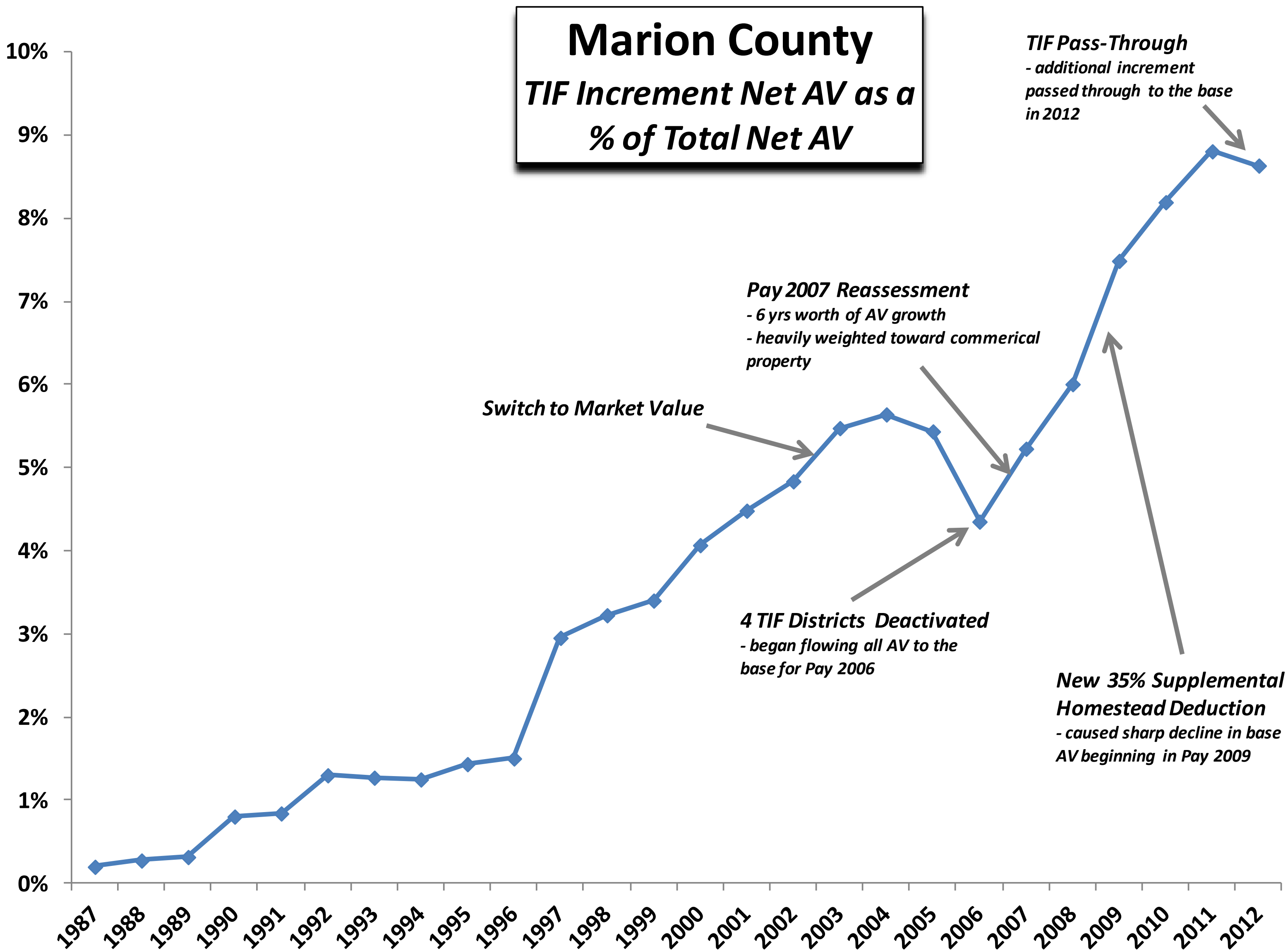

Ft. Harrison
LAWRENCE
Monarch
Pendleton Pike
Speedway III
SPEEDWAY
Speedway I
Speedway II
Amtrak/Conrail
BEECH GROVE
South Emerson
SOUTHPORT
Excluded Cities TIFs
Excluded Cities
Note: Descriptions were not available for the Beech Grove Consolidated Area and Medical Center Area.
APRIL 2012
Excluded Cities TIFs

Financial Impacts of Tax Increment Financing

April 5, 2012

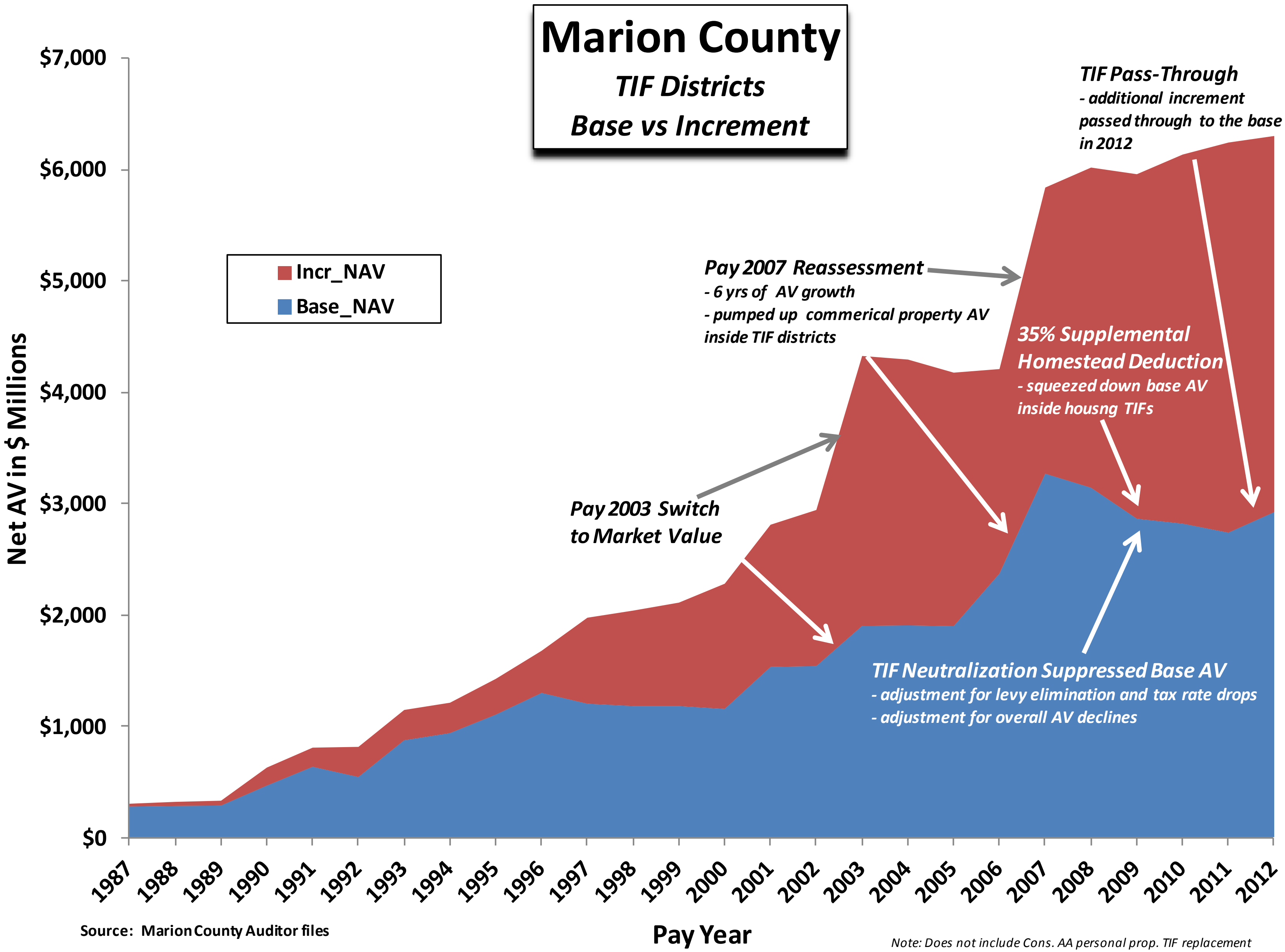
Jason O'Neill, Policy Analytics, LLC

Jeff Spalding, City Controller



Source: Legislative Services Agency, LOGODABA; Marion County Auditor files

Note: Does not include Cons. AA personal prop. TIF replacement



Source: Marion County Auditor files

Note: Does not include Cons. AA personal prop. TIF replacement

TIF Neutralization

- Required annually by DLGF in accordance with 50 IAC 8-2-12. Procedure is mandated by DLGF.
- Legally required process neutralizes the effect of external factors on the base and the increment.
- TIF neutralization outcomes:
  - Adjust the base assessed value for market value trends (either upward or downward, depending on market conditions).
  - Maintain at least as much incremental revenue in the ensuing year as in the preceding year.
  - Basis for initial debt service coverage projections.

TIF Neutralization (Cont.)

Causes of Base AV Depletion

– Elimination of levies and tax rates due to the State assuming School General and County Welfare levies.

Property Tax Rate Composition for District 101

	2008	**2009**
City-County Functions	1.3767	1.2147
Center Township	0.0510	0.0578
Library, Indygo, Hospital	0.3521	0.3254
Indianapolis Public School	1.7668	1.1569
Total Tax Rate	**3.5466**	**2.7548**

TIF Neutralization (Cont.)

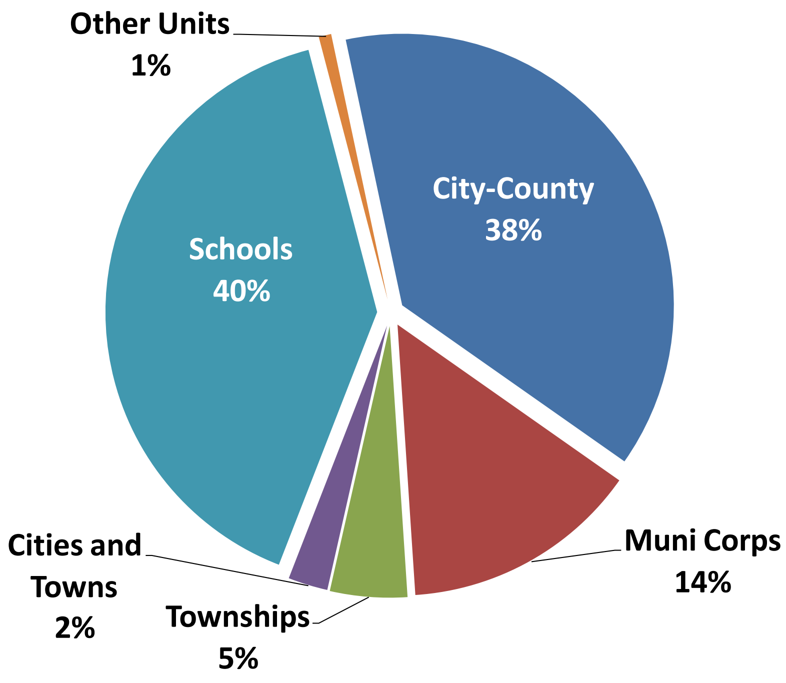
Causes of Base AV Depletion

- Introduction of the supplemental standard deduction reduced net assessed values in housing TIFs.
- Economic downturn had a sustained, negative impact on assessed valuation (both county-wide and within TIF districts).
- Protection for property tax appeals. The 2006-07 special reassessment led to an increased number of property tax appeals.

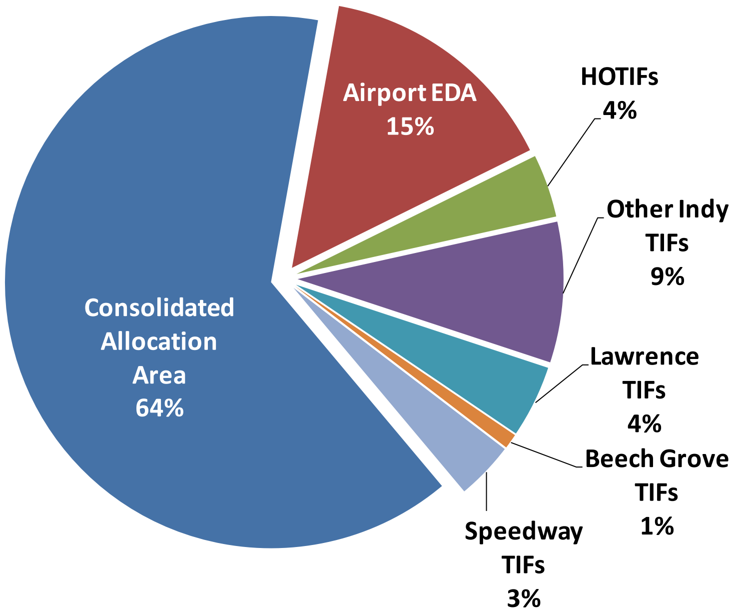
Marion County Property Tax Revenue

Marion County 2012 Property Taxes
$933.5 million (net of CB credit)

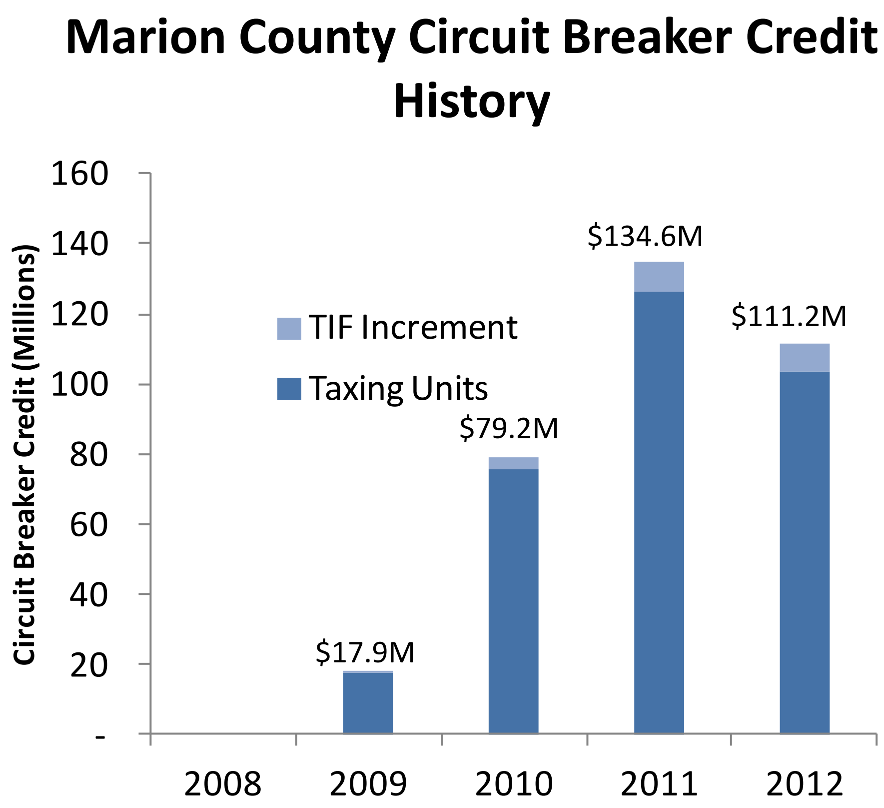
Property Tax Revenue to Units
$834.3M (89% of total)

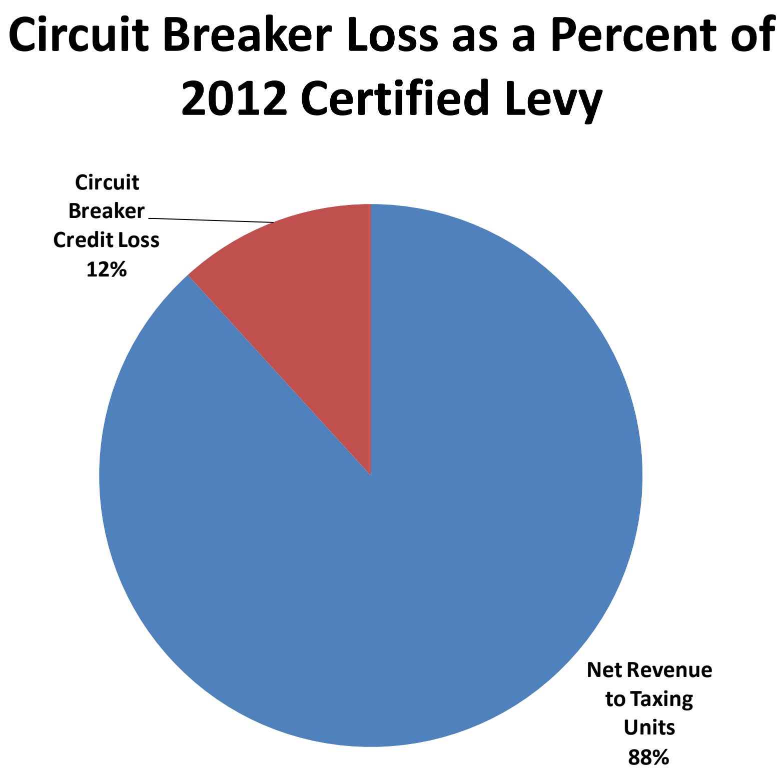


TIF Increment Revenue
$99.2 million (11% of total)



Marion County Circuit Breaker Impact





Impact of Circuit Breaker Credit

on the relationship between TIF districts and taxing units

Pre-Circuit Breaker Credit	Post-Circuit Breaker Credit
• Taxing unit property tax revenue determined by <u>levy</u> controls. • Maximum levy growth determined by change in Indiana personal income. • Revenue growth is virtually guaranteed – tax rates adjust to generate revenue necessary to fund levies. • TIF activity does not largely impact property tax revenue for other taxing units.	• Taxing unit property tax revenue determined by <u>rate</u> controls. • Levy controlled funds act more like rate controlled funds. Homesteads limited at 1%, other residential at 2%, all other property at 3%. • Once all parcels reach circuit breaker, revenue growth only occurs through growth in the tax base. • TIF activity can have negative revenue implications through higher circuit breaker losses.

TIF Increment Pass-Through

- MDC must make a determination of how much incremental AV is required by July 15th of each year.
- AV pass through for the 2012 tax year (millions):

Consolidated Allocation Area	97.6
Harding Street Redevelopment	55.2
Glendale Redevelopment	15.9
86th St. TIF -Dow Elanco (partially dormant)	273.1
Tibbs Ave TIF - Rolls Royce	8.3
Lawrence 96th St. (dormant)	139.7
Washington 96th St. (dormant)	289.5
Brookville/Senour A.A. (dormant)	17.9
Total 2012 TIF pass-through	**897.4**
Dormant TIF pass-through	*720.2*
Active TIF pass-through	*177.0*

- Decision not to collect Consolidated Allocation Area personal property TIF replacement reverts approximately $350M to the tax base.

TIF Pass Through Impact

TIF Capture Scenario

$100M in Net Assessed Value

Capture in Increment

Results in $3.2M in TIF revenue

TIF Pass Through Scenario

$100M in Net Assessed Value

Pass to base

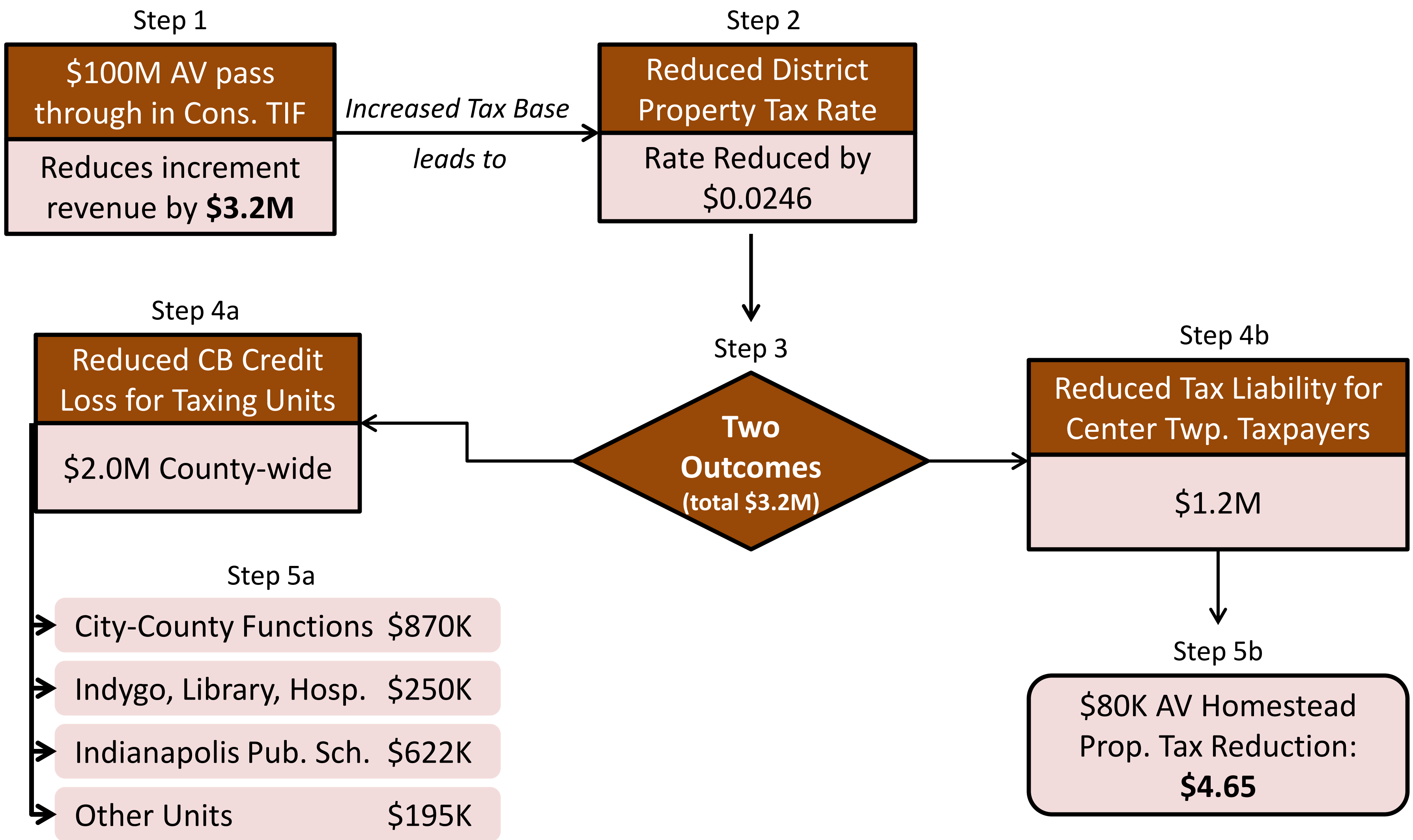
Results in $2.0M revenue increase to units

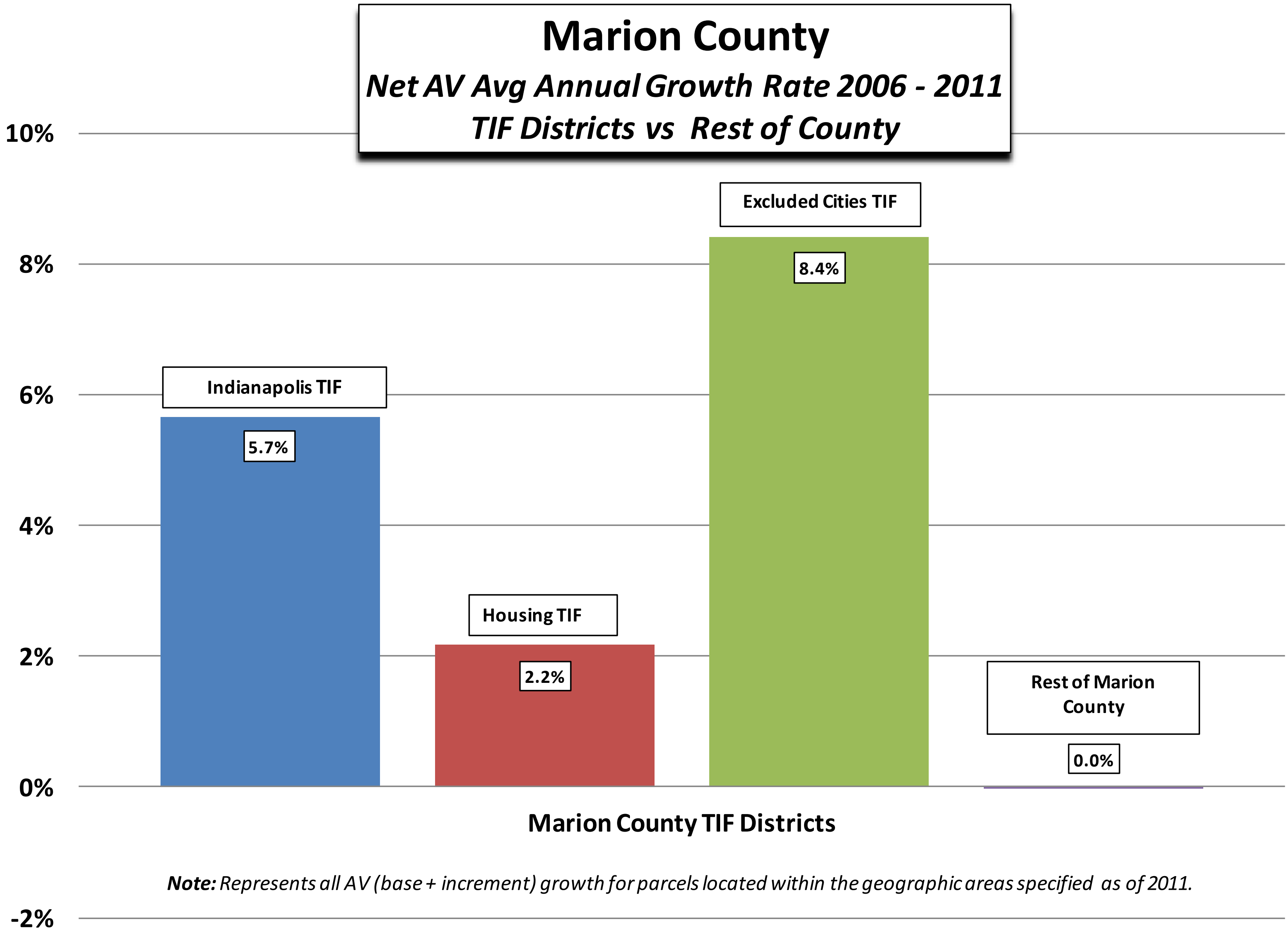
The relationship between circuit breaker relief and increment pass-through is non-linear, and decreases as more AV is released to the base. When $100M of AV is passed through, $3.2M in increment revenue translates to $2.0M in additional property tax revenue to units (63%).

If all TIF increment is passed through, $99M in increment revenue would translate to $43M in additional property tax revenue to units (43%).

TIF Pass Through Simulation

Modeled Using Actual 2012 Data




Marion County
Net AV Avg Annual Growth Rate 2006 - 2011
TIF Districts vs Rest of County
10%
8%
6%
4%
2%
0%
-2%
Indianapolis TIF
5.7%
Housing TIF
2.2%
Excluded Cities TIF
8.4%
Rest of Marion County
0.0%
Marion County TIF Districts
Note: Represents all AV (base + increment) growth for parcels located within the geographic areas specified as of 2011.

Exhibits

- TIF 2012 Summary Worksheet
  - TIF general information
  - Assessed Value
  - Revenue and Debt Service
  - Fund Balances
- TIF Briefing Report
  - Allocation Area Report
  - TIF District Report
  - Satellite Map

Marion County TIF Districts – Overview: Accounting and Reporting Practices and Requirements

Angie Steeno, *Crowe Horwath, LLP*

Jason O'Neill, *Policy Analytics*

Current Accounting and Reporting Practices and Requirements

- Tax Impact Analysis
  - Required by IC 36-7-14-17
  - Purpose - notify taxing units that may be affected by the designation and expansion of an allocation area:
    - Estimated economic benefits and costs (specifically measured by increased employment) and anticipated growth of real property assessed values
    - Anticipated impact on tax revenues of each taxing unit
  - Distributed 10 days prior to a public hearing

Current Accounting and Reporting Practices and Requirements

- **Rate Controls** – Required Reporting

  - Incremental Assessed Valuation multiplied by Controlled Tax Rate = Impact
  - Impact = Opportunity cost/benefit if and when revenue is passed through to the base

- **Levy Controls** – Not Required Reporting

  - Limited on an aggregate basis by a "maximum levy or growth" calculation
  - Average change in Indiana non-farm personal income for each of six years preceding the year in which a budget is adopted.

Current Accounting and Reporting Practices and Requirements

- Circuit Breaker
  - Tax credit at the individual taxpayer level
  - For all property taxes in an amount that exceeds a percentage (%) of the gross assessed value
    - 1% for homestead- eligible property
    - 2% for other residential real property (generally, apartments and rental homes), long-term care facilities, and agricultural land
    - 3% for all other real and personal property
- Reduction of property tax collections for taxing unit which the Circuit Breaker Tax Credit is applied

Current Accounting and Reporting Practices and Requirements

- Impact on Levy Controlled Fund = Limited indirect effect on the capability to raise required property tax revenues to the extent that growth in property assessed values are limited, resulting in individual property tax rates which exceed the property tax caps.

- Comprehensive Impact
  - Looks at impact at both Rate Controlled and Levy Controlled Fund levels.

Reporting of Potential Base Value of Proposed AV Increment Capture

(modeled using 2012 data)

Assumption: $100M in new investment is proposed to be captured in a TIF allocation area

	County-wide Impact
Impact 1: Potential revenue for rate-controlled funds *Statutorily required to be reported to all affected units*	$455,900
Impact 2: Potential circuit breaker relief for taxing units (all funds) *Not required to be reported*	$1,529,600
Total Impact	$1,985,500

Current Accounting and Reporting Practices and Requirements

- IC 36-7-15.1-36.3 - Effective JULY 1, 2012
  - Prior to this, there was <u>no</u> accounting requirement

- Within 30 days after the close of each calendar year
  - Commission files report with Mayor's office
  - Names of the then qualified and acting commissioners
  - Names of the officers of that body
  - Number of regular employees and their fixed salaries or compensation
  - Amount of the expenditures made during the preceding year and their general purpose

Current Accounting and Reporting Practices and Requirements

  - An accounting of the Tax Increment Financing (TIF) Revenues expended by any entity receiving TIF Revenues as a grant or loan from the commission
  - Amount of funds on hand at the close of the calendar year
  - Other information necessary to disclose the activities of the commission and the results obtained.

- A copy of each report filed under this section must be submitted to the DLGF in an electronic format under IC 5-14-6.